



Insights at a Glance: Summarizing Midstream's Merits with AMNA

December 15, 2020

Author: Stacey Morris

In a year of significant macro headwinds, midstream has stood apart from the rest of energy for its defensive performance underwritten by the greater cash flow stability of its fee-based business model. As oil and gas producers and oilfield service companies saw their 2020 and 2021 estimates slashed in the wake of the pandemic, the forward outlook for midstream earnings remained steady. Combining resilient cash flows with significant reductions to capital budgets, many midstream companies are anticipating or already generating significant [free cash flow](#) and have announced [buyback programs](#) as another means of returning cash to shareholders beyond generous dividends. While the energy sector is broadly pursuing free cash flow, investors can have [greater confidence](#) in midstream's ability to deliver free cash flow independent of the oil price level due to the more predictable cash flows of the midstream business. While less directly exposed to commodity prices, midstream [still stands to benefit](#) from any potential improvement in the outlook for the global economy and a recovery in oil demand supported by successful deployment of a vaccine.

To better demonstrate midstream's advantages, the infographic below references the characteristics of the [Alerian Midstream Energy Index \(AMNA\)](#), which is the underlying index for the ETRACS Alerian Midstream Energy Index ETN (AMNA). The broad-based composite index includes energy infrastructure MLPs, US corporations, and Canadian corporations and is weighted based on float-adjusted market cap with a 10% cap for individual constituents. Unlike other indexes with both MLPs and corporations, AMNA does not limit the weighting of MLPs, providing superior representation of the North American midstream universe. For more detail, please see this index [white paper](#) from July 2020.

As shown in the infographic on the following page, midstream offers attractive yields from largely quality companies that have performed defensively this year compared to broader energy, represented by the Energy Select Sector Index (IXE). As of December 11, AMNA yielded a more generous 7.3% compared to 5.5% for broader energy. Despite its relative outperformance, midstream has faced selling pressure disproportionate to its modest forward EBITDA revisions. Valuations remain attractive with AMNA trading at 9.9x 2021 EBITDA as of December 11 compared to an average forward EBITDA multiple of 10.9x since inception in June 2018. While the income is attractive, discounted valuations relative to history and the proliferation of buyback programs make for a compelling total return opportunity.

Midstream: Quality Companies with Attractive Yields

Year-to-Date Total Return

AMNA	IXE
-16.8% ↓	-28.1% ↓

2020/21 Index-level EBITDA Estimate Revisions Since January 31

	AMNA	IXE
2020:	0.2% ↑	-50.9% ↓
2021:	-4.6% ↓	-52.2% ↓

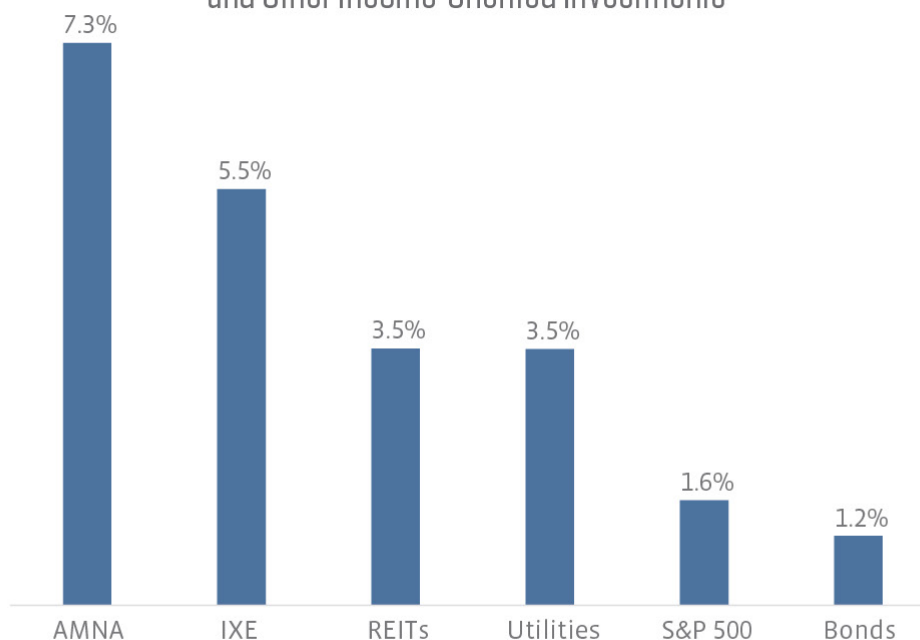
AMNA Largely Weighted to Investment-Grade Companies

81.5%

15 Constituents with Buyback Authorizations Representing

53.8% of AMNA by Weighting

Midstream Yields Compare Favorably to Broader Energy and Other Income-Oriented Investments



All data shown as of December 11, 2020.
Source: Alerian, Bloomberg as of December 11, 2020

// Disclaimers

This Document Is Impersonal and Not a Solicitation. In jurisdictions where Alerian, S-Network Global Indexes, or their affiliates do not have the necessary licenses, this document does not constitute an offering of any security, product, or service. Alerian and S-Network Global Indexes receive compensation in connection with licensing its indices to third parties. All information provided by Alerian and S-Network Global Indexes in this document is impersonal and not customized to the specific needs of any entity, person, or group of persons. Alerian, S-Network Global Indexes, and their affiliates do not endorse, manage, promote, sell, or sponsor any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return linked to or based on the returns of any Alerian or S-Network Global Indexes index.

No Advisory Relationship. Alerian and S-Network Global Indexes are not investment advisors, and Alerian, S-Network Global Indexes, and their affiliates make no representation regarding the advisability of investing in any investment fund or other vehicle. This document should not be construed to provide advice of any kind, including, but not limited to, tax and legal.

You Must Make Your Own Investment Decision. It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Past performance is not a guarantee of future returns. You should not make a decision to invest in any investment fund or other vehicle based on the statements set forth in this document, and are advised to make an investment in any investment fund or other vehicle only after carefully evaluating the risks associated with investment in the investment fund, as detailed in the offering memorandum or similar document prepared by or on behalf of the issuer. This document does not contain, and does not purport to contain, the level of detail necessary to give sufficient basis to an investment decision. The addition, removal, or inclusion of a security in any Alerian or S-Network Global Indexes index is not a recommendation to buy, sell, or hold that security, nor is it investment advice.

No Warranties. The accuracy and/or completeness of any Alerian or S-Network Global Indexes index, any data included therein, or any data from which it is based is not guaranteed by Alerian or S-Network Global Indexes, and it shall have no liability for any errors, omissions, or interruptions therein. Alerian and S-Network Global Indexes make no warranties, express or implied, as to results to be obtained from use of information provided by Alerian and S-Network Global Indexes and used in this service, and Alerian and S-Network Global Indexes expressly disclaim all warranties of suitability with respect thereto.

Limitation of Liability. While Alerian and S-Network Global Indexes believe that the information provided in this document is reliable, Alerian and S-Network Global Indexes shall not be liable for any claims or losses of any nature in connection with the use of the information in this document, including but not limited to, lost profits or punitive or consequential damages, even if Alerian and S-Network Global Indexes have been advised of the possibility of same.

Research May Not Be Current. This document has been prepared solely for informational purposes based on information generally available to the public from sources believed to be reliable. Alerian and S-Network Global Indexes make no representation as to the accuracy or completeness of this document, the content of which may change without notice. Alerian and S-Network Global Indexes expressly disclaim any obligation to update the contents of this document to reflect developments in the energy Master Limited Partnership sector. The methodology involves rebalancings and maintenance of indices that are made periodically throughout the year and may not, therefore, reflect real-time information.

Linked Products. Alerian and S-Network Global Indexes licenses its indices to third parties for the creation of investment funds or other vehicles. Alerian and S-Network Global Indexes are not responsible for the information on these websites or for anything that they provide.

Policies and Procedures. Analytic services and products provided by Alerian and S-Network Global Indexes are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Alerian and S-Network Global Indexes have established policies and procedures to maintain the confidentiality of material non-public information received during each analytic process. Alerian, S-Network Global Indexes, and their affiliates provide a wide range of services to, or relating to, many organizations, and may receive fees or other economic benefits from these organizations.

Copyright. No Unauthorized Redistribution. Alerian and S-Network Global Indexes © 2020. All rights reserved. This document, in whole or in part, may not be redistributed, reproduced, and/or photocopied without prior written permission.

Alerian

alerman.com
info@alerman.com // 972.957.7700
3625 N. Hall St., Suite 1200, Dallas, TX 75219

S-Network Global Indexes

snetworkglobalindexes.com
info@snetworkinc.com // 646.467.7928
267 Fifth Avenue, Suite 508, New York, NY, 10016